

**TOWNSHIP OF PORT AUSTIN
HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT
YEAR ENDED MARCH 31, 2005**

KENNETH J. BARANSKI, CPA, PLLC

----- *Certified Public Accountant* -----

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name PORT AUSTIN TOWNSHIP	County HURON
Audit Date 3/31/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State: 9/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

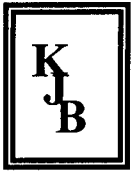
We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) KENNETH J. BARANSKI, CPA, PLLC			
Street Address 132 E. HURON AVENUE, SUITE 2	City BAD AXE	State MI	ZIP 48413
Accountant Signature <i>Kenneth J Baranski, CPA, PLLC</i>			Date 9/14/05

TOWNSHIP OF PORT AUSTIN

<u>CONTENTS</u>	<u>PAGE</u>
Independent auditor's report	1 - 2
Management's discussion and analysis.....	3 - 8
Basic financial statements:	
Government-wide financial statements:	
Statement of net assets.....	9
Statement of activities	10
Fund financial statements:	
Balance sheet - governmental funds	11
Reconciliation of governmental fund balances to governmental activities net assets	12
Statement of revenues, expenditures and changes in fund balances - governmental funds	13
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	14
Statement of net assets - fiduciary fund	15
Notes to financial statements.....	16 - 26
Required supplemental information:	
Budgetary comparison schedule - general fund	27 - 30
Budgetary comparison schedule - major special revenue fund	31
Other supplemental information:	
Balance sheet - nonmajor governmental fund	32
Statement of revenues, expenditures and changes in fund balance - nonmajor governmental fund.....	33
Statement of changes in assets and liabilities - current tax collection agency fund	34
Schedule of indebtedness - bank note payable.....	35



KENNETH J. BARANSKI, CPA, PLLC

Certified Public Accountant

132 E. Huron Avenue, Suite 2

Bad Axe, Michigan 48413

(989) 269-6766 • Fax (989) 269-6795

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Township of Port Austin
Huron County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Port Austin, as of March 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Port Austin as of March 31, 2005, and the respective change in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, and budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Port Austin's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

TOWNSHIP OF PORT AUSTIN
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Kenneth J Baranski, CPA, PLLC

Kenneth J. Baranski, CPA, PLLC
August 26, 2005

PORT AUSTIN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2005

Our discussion and analysis of Port Austin Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

Comparative Data

This is the first year the Township has implemented GASB No. 34. Because of this, comparative information on a government-wide basis is not available for the prior fiscal year ended March 31, 2004. Comparative information will be available for presentation in Management's Discussion and Analysis for the year ending March 31, 2006.

Financial Highlights

The Township's financial position deteriorated during the fiscal year. Fund balances reported in the Balance Sheet decreased by \$50,282, while net assets in the Statement of Activities decreased by \$48,742.

One of the primary causes of the deterioration was expenditures incurred for road work in the General Fund. The Township reported \$116,064 of tax revenue for road work. In contrast, the Township spent \$170,709 on road work for the fiscal year, attributing to a \$54,645 decrease in the General Fund's fund balance and governmental activities net assets.

Taxable values on real and personal property increased by \$5,991,209, a 7% increase. Taxable value for the 2003 levy was \$84,524,515, compared to \$90,515,724 for 2004.

Additionally, due to continued reductions in spending by the State of Michigan, the Township's State Revenue Sharing was approximately \$10,000 less than it was in the prior fiscal year.

PORT AUSTIN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2005
(CONTINUED)

The Township as a Whole

The following shows a condensed view of the Township's net assets as of March 31, 2005:

	<u>Governmental Activities</u>
Current assets	\$393,456
Noncurrent assets	<u>105,113</u>
Total assets	<u>498,569</u>
Long-term debt outstanding	69,586
Other liabilities	<u>50,623</u>
Total liabilities	<u>120,209</u>
Net assets:	
Invested in capital assets net of related debt	105,113
Restricted	29,572
Unrestricted	<u>243,675</u>
Total net assets	<u>\$378,360</u>

Unrestricted net assets, the part of net assets that can be used to finance the day to day operations of the Township, of \$243,675 represents 64% of the total net assets of governmental activities. Restricted net assets consist of \$25,860 reported in the General Fund - \$19,021 for road expenses and \$6,839 for debt service; and \$3,712 in the Cemetery Perpetual Care Fund for perpetual care, of which \$3,700 in nonexpendable.

PORT AUSTIN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2005
(CONTINUED)

The following shows the changes in net assets for the year ended March 31, 2005:

	<u>Governmental Activities</u>
Program revenues:	
Charges for services	\$ 35,133
Operating grants and contributions	500
Capital grants and contributions	-
General Revenues:	
Property taxes	315,135
State shared revenues	60,763
Unrestricted investment earnings	2,488
Franchise fees	6,688
Miscellaneous	<u>6,828</u>
Total revenues	<u>427,535</u>
Program expenses:	
General government	181,352
Public safety	46,472
Public works	179,785
Recreation and culture	65,343
Interest on long-term debt	<u>3,325</u>
Total expenses	<u>476,277</u>
Change in net assets	(48,742)
Net assets - beginning of year	<u>427,102</u>
Net assets - end of year	<u>\$378,360</u>

PORT AUSTIN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2005
(CONTINUED)

The Township's Funds

Our analysis of the Township's major funds begins following the entity-wide financial statements presented in this financial report. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes, as well as, to show accountability for certain activities. The Township's major funds for the year ended March 31, 2005 include the General Fund and the Library (Special Revenue) Fund.

Other nonmajor funds utilized by the Township include the Cemetery Perpetual Care Fund (a permanent fund). The Township also utilizes the Current Tax Collection Agency Fund, a fiduciary fund.

The fund balance in the General Fund decreased by \$55,304 during the fiscal year. This is due, largely, to road expenditures in excess of the related tax revenue, as previously noted in this Management Discussion and Analysis. Of the General Fund's total fund balance of \$179,185, at March 31, 2005, \$153,325 is unreserved and available for general expenditures of the Township. The Library Fund's fund balance remains basically unchanged. It increased by \$1,310. The Cemetery Perpetual Care Fund reported a fund balance of \$3,712, which is reserved for perpetual care.

Governmental Activities

The Township's governmental activities reported in the Statement of Net Assets, the Statement of Activities and elsewhere throughout the financial report, include the General Fund, the Library (Special Revenue) Fund and the Cemetery Perpetual Care Fund (a permanent fund).

Business-type Activities

The Township has no business-type activities to report in the financial statements.

Budgetary Highlights

In the General Fund, there were no significant changes between the original budget and the final budget for the fiscal year. Amendments were made during the year to move money from one line-item to another, but not to increase the total expenditures budgeted. Road expenditures exceeded

PORT AUSTIN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2005
(CONTINUED)

the budgeted amount by \$54,709. The budget was not amended for year end payables recorded. Also, debt service principal and interest payments totaling \$9,948 were not budgeted.

The Library Fund did not amend its budget for the fiscal year. Actual expenditures exceeded budgeted amounts on almost every line-item.

For more detailed information regarding budgetary variances, please see the Budgetary Comparison Schedules contained in the Required Supplemental Information section of this financial report.

Capital Assets and Debt Administration

The Township now has a detailed capital assets listing, which includes buildings and improvements, office and election equipment and books, audio and videos. The list was set up in accordance with GASB No. 34 and depreciation was calculated for the Statement of Activities. A summary of capital assets is as follows for the Township's governmental activities:

Depreciable capital assets at March 31, 2004	\$119,214
Add: Capital assets purchased	<u>21,482</u>
Depreciable capital assets at March 31, 2005	140,696
Accumulated depreciation at March 31, 2004	\$57,381
Add: Depreciation expense for the fiscal year	<u>15,821</u>
Accumulated depreciation at March 31, 2005	<u>(73,202)</u>
Depreciable capital assets, net at March 31, 2005	67,494
Land owned at March 31, 2004	<u>37,619</u>
Capital assets, net at March 31, 2005	<u><u>\$105,113</u></u>

In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Huron County Road Commission.

During the year, the Township made debt repayments totaling \$9,948, consisting of \$6,623 of principal repayments and \$3,325 of interest. The balance of the note payable, due to a local bank, at March 31, 2005 was \$69,586. For a detailed breakdown of the debt payment schedule, see the

PORT AUSTIN TOWNSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2005
(CONTINUED)

notes to the financial statements contained in this report and the schedule provided in the other supplemental information.

There have been no changes to the Township's credit rating or debt limitations.

Economic Factors and Next Year's Budgets and Rates

The Township has budgeted \$138,000 for road work for the year ending March 31, 2006, and is looking at completing road work on Larned Road. The Township needs to limit road expenditures to the related tax revenue amount to avoid further erosion of the General Fund's fund balance.

The Township currently rents space on a monthly basis to house its offices. The Board continues to look for suitable real estate to purchase to be used for the Township offices. Should the Township find a suitable parcel, the Board will have to seek financing for the purchase, either through a loan or a land contract with the seller. An amount for such a transaction has not been provided for in the 2005-06 budget.

Contacting the Township's Management

This report is intended to provide citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Supervisor - Marvin Goretski, or the Township Clerk - Cheryl Gray at the Township office located at 393 Starboard Drive, Port Austin, Michigan 48467, telephone (989) 738-6808.

Basic Financial Statements

TOWNSHIP OF PORT AUSTIN
STATEMENT OF NET ASSETS
MARCH 31, 2005

Primary
Government
Governmental
Activities

ASSETS

Cash and cash equivalents	\$284,488
Receivables:	
Taxes	22,457
Special assessments	86,192
Due from fiduciary fund	319
Capital assets - net	<u>105,113</u>
Total assets	<u>498,569</u>

LIABILITIES

Accounts payable	4,283
Due to other governments	46,340
Noncurrent liabilities:	
Note payable - due within one year	3,408
Note payable - due in more than one year	<u>66,178</u>
Total liabilities	<u>120,209</u>

NET ASSETS

Investment in capital assets net of related debt	105,113
Restricted for:	
Perpetual care - expendable	12
Perpetual care - nonexpendable	3,700
Roads	19,021
Debt service	6,839
Unrestricted	<u>243,675</u>
Total net assets	<u>\$378,360</u>

The notes to financial statements are an integral part of this statement.

TOWNSHIP OF PORT AUSTIN
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
	<u>Expenses</u>			<u>Primary Governmental Activities</u>
Primary government:				
Governmental activities:				
General government	\$181,352	\$ -	\$ -	\$(168,788)
Public safety	46,472	-	-	(46,472)
Public works	179,785	-	-	(179,785)
Recreation and culture	65,343	500	-	(42,274)
Interest on long-term debt	3,325	-	-	(3,325)
Total primary government	<u>\$476,277</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>(440,644)</u>
	<u>General revenues</u>			
	Property taxes			315,135
	State shared revenues			60,763
	Unrestricted investment earnings			2,488
	Franchise fees			6,688
	Miscellaneous			<u>6,828</u>
	Total general revenue			<u>391,902</u>
	Change in net assets			(48,742)
	Net assets - beginning of year			<u>427,102</u>
	Net assets - end of year			<u><u>\$378,360</u></u>

The notes to financial statements are an integral part of this statement.

TOWNSHIP OF PORT AUSTIN
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2005

	<u>Major Funds</u>		<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Library</u>		
<u>ASSETS</u>				
Cash and cash equivalents	\$208,129	\$72,647	\$3,712	\$284,488
Receivables:				
Taxes	22,457	-	-	22,457
Special assessments	86,192	-	-	86,192
Due from other funds	319	3,000	-	3,319
Total assets	<u>\$317,097</u>	<u>\$75,647</u>	<u>\$3,712</u>	<u>\$396,456</u>

LIABILITIES AND FUND BALANCES

Liabilities:				
Accounts payable	\$ 2,618	\$ 1,665	\$ -	\$ 4,283
Due to other funds	3,000	-	-	3,000
Payable to other governments	46,340	-	-	46,340
Deferred revenue	85,954	-	-	85,954
Total liabilities	<u>137,912</u>	<u>1,665</u>	<u>-</u>	<u>139,577</u>
Fund balances:				
Reserved for perpetual care	-	-	3,712	3,712
Reserved for roads	19,021	-	-	19,021
Reserved for debt service	6,839	-	-	6,839
Unreserved	153,325	73,982	-	227,307
Total fund balances	<u>179,185</u>	<u>73,982</u>	<u>3,712</u>	<u>256,879</u>
Total liabilities and fund balances	<u>\$317,097</u>	<u>\$75,647</u>	<u>\$3,712</u>	<u>\$396,456</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF PORT AUSTIN
RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
MARCH 31, 2005

Total fund balances of governmental funds		\$256,879
Amounts reported for governmental activities in the statement of net assets that are different as follows:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
Capital assets	178,315	
Accumulated depreciation	<u>(73,202)</u>	105,113
Long-term receivables such as special assessments are expected to be collected over several years in the governmental funds and are not available to pay for current year expenditures.		85,954
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Note payable		<u>(69,586)</u>
Net assets of governmental activities		<u>\$378,360</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF PORT AUSTIN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2005

	<u>Major Funds</u>		<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Library</u>		
Revenues:				
Taxes	\$273,560	\$41,575	\$ -	\$315,135
Licenses and permits	9,418	-	-	9,418
State sources	58,372	2,391	-	60,763
Contributions from local units	-	500	-	500
Charges for services	3,650	641	3,700	7,991
Fines and forfeits	-	13,951	-	13,951
Interest	1,803	673	12	2,488
Rentals	-	7,250	-	7,250
Other	<u>13,907</u>	<u>6,876</u>	<u>-</u>	<u>20,783</u>
Total revenues	360,710	73,857	3,712	438,279
Expenditures:				
General government	179,309	-	-	179,309
Public safety	46,472	-	-	46,472
Public works	179,785	-	-	179,785
Recreation and culture	500	72,547	-	73,047
Debt service	<u>9,948</u>	<u>-</u>	<u>-</u>	<u>9,948</u>
Total expenditures	<u>416,014</u>	<u>72,547</u>	<u>-</u>	<u>488,561</u>
Excess of revenues over (under) expenditures	(55,304)	1,310	3,712	(50,282)
Fund balances - March 31, 2004	<u>234,489</u>	<u>72,672</u>	<u>-</u>	<u>307,161</u>
Fund balances - March 31, 2005	<u>\$179,185</u>	<u>\$73,982</u>	<u>\$3,712</u>	<u>\$256,879</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF PORT AUSTIN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

Net change in fund balances of total governmental funds			\$(50,282)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	21,482		
Depreciation expense	<u>(15,821)</u>	5,661	
The issuance of long-term debt (i.e. bonds or notes) provides current financial resources to the governmental funds, while the repayment of the principal of the long-term debt consumes the current financial resources to governmental funds. Neither transaction has any effect on net assets.			
Principal payments on long-term debt		6,623	
Special assessment revenue is recorded in the statement of activities when the project is substantially complete. The revenue is not reported in the governmental funds if it is not collected by the fiscal year end or within 60 days of year end.			
Special assessment revenue			<u>(10,744)</u>
Change in net assets of governmental activities			<u>\$(48,742)</u>

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF PORT AUSTIN
STATEMENT OF NET ASSETS - FIDUCIARY FUND
MARCH 31, 2005

	Current Tax Collection <u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$2,052</u>
<u>LIABILITIES</u>	
Accounts payable	\$1,506
Due to other funds	319
Due to other governmental units	<u>227</u>
Total liabilities	<u>\$2,052</u>

The notes to the financial statements are an integral part of this statement.

Notes to Financial Statements

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

1. Summary of Significant Accounting Policies

The accounting policies of the Township of Port Austin, Michigan (the Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

A. Reporting Entity

The Township is located in Huron County, Michigan, and has approximately 1,600 residents. The Township is governed by a five member elected board. The financial statements include the accounts of all Township operations.

The accompanying financial statements present the Township of Port Austin (primary government) and its component unit, an entity for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The following is a brief review of each potential component unit addressed in defining the government's reporting entity, in accordance with the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14.

Blended Component Unit

Port Austin Township Library

The Port Austin Township Library (Library) is included as part of the Township for financial reporting purposes because of its financial dependence on the Township. The financial statements of the Library have been blended with those of the primary government and are included in the Special Revenue Fund category.

The financial records of the Port Austin Township Library are on file at the Library, which is located at 114 Railroad Street, Port Austin, Michigan 48467.

Joint Venture

The Township participates in a cooperative unit with the Port Austin Fire Department. See Note 10 for further disclosures. The joint venture does not meet the criteria for inclusion in the financial reporting entity as a component unit, but is discussed in the notes because of the nature of its relationship to the Township.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment;

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Library Special Revenue Fund - The Library Fund provides library services to the Township's residents.

Additionally, the Township reports the following fund types:

Permanent Fund - Permanent Funds are used to account for resources that are legally restricted to the extent that only the earnings, and not the principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry. The Township utilizes a Cemetery Perpetual Care Fund.

Fiduciary Fund - Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, or other governments. The Township utilizes a Current Tax Collection Agency Fund.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as do the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, contributions and other items are recognized as revenue as soon as any eligibility requirements imposed have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments collected in the current fiscal period, and interest. All other revenue items are considered available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgements are recorded only when payment is due.

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

Private sector standards of accounting issued before December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Other receivables are shown net of any allowance for uncollectible amounts.

Property Taxes - Property taxes are levied on each December 1st based on the taxable valuation of the property as of the preceding December 31st. These taxes are payable to the Township until February 15th without penalty. The final collection date by the Township Treasurer is February 28th, before the unpaid taxes are added to the County tax rolls.

Inventories - Inventories of the governmental funds are recorded as expenditures when purchased.

Restricted Assets - Restricted assets include Township deposits being held for road maintenance and related debt service, and cemetery perpetual care. Amounts collected in the Cemetery Perpetual Care Fund for burials and plot sales are nonexpendable, only the investment earnings on deposits in the Fund are expendable.

Capital Assets - Capital assets, which include land, buildings and related improvements, office and election equipment, and books, audio and videos are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of \$500 or more and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciable capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Office furniture and equipment	5 years
Election equipment	5 years
Books, audio and videos	5 years

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a liability in the appropriate governmental activity statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

2. Stewardship, Compliance and Accountability

The Township has a twelve month fiscal year beginning April 1st. Prior to the beginning of the fiscal year, the proposed revenue and expenditure budget for each budgetary fund is prepared by the various Township Board Members on the modified accrual basis of accounting, in conformity with generally accepted accounting principals for governmental funds. Public hearings are held to obtain taxpayer comments and input. The budgets are adopted by a majority vote of the Township Board. The Township Board monitors the budget regularly and makes amendments to the budget when necessary. The Township prepared budgets for the General Fund and Library Special Revenue Fund. A budget was not prepared for the Township's Permanent Fund - Cemetery Perpetual Care Fund. All budgeted amounts lapse at the fiscal year end.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of amounts appropriated.

In the required supplemental information, the Township's actual expenditures and budgeted expenditures for the General Fund and the Major Special Revenue Fund (Library Fund) have been shown to the line-item level. The General Fund budget was amended during the year, while the Library Special Revenue Fund budget was not.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the Township incurred expenditures in excess of amounts appropriated as follows:

<u>Fund/Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Major funds:			
General Fund:			
Public safety	\$ 46,300	\$ 46,472	\$ (172)
Public works	136,000	179,785	(43,785)
Debt service	-	9,948	(9,948)
Library Fund:			
Recreation and culture	56,585	72,547	(15,962)

These variances were caused by unanticipated expenditures that became necessary during the year.

For a detailed review of the expenditures in excess of amounts appropriated to the line-item level, see the budgetary comparison schedules located in the required supplemental information section of this financial report.

3. Deposits and Investments

Michigan Compiled Laws Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

At March 31, 2005, deposits and investments consisted solely of cash and cash equivalents and were reported in the basic financial statements, at cost, as follows:

Governmental Activities	\$284,488
Fiduciary Fund	<u>2,052</u>
Total cash and cash equivalents	<u>\$286,540</u>

In accordance with GASB Statement No. 3, the above amounts are classified in the following categories:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$265,813	\$2,052
Petty cash or cash on hand	100	-
Deposits held by the Township	<u>18,575</u>	<u>-</u>
Total	<u>\$284,488</u>	<u>\$2,052</u>

Deposits of the Township are all maintained in the Township's name and are at one federally insured bank located in the state of Michigan. As of March 31, 2005, the Township's accounts were FDIC insured for \$200,000 and the remainder, \$86,540, was uninsured and uncollateralized.

Other than the above, the Township has no investments requiring further disclosure.

4. Receivables

Receivables were as follows as of March 31, 2005:

	<u>Governmental Activities General Fund</u>
Taxes	\$ 22,457
Special assessments	86,192
Less: Allowance for uncollectible amounts	<u>-</u>
Total	<u>\$108,649</u>

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of March 31, 2005, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	<u>\$85,954</u>	<u>\$ -</u>

5. Property Taxes

The 2004 tax levy was based on the following property valuations and millage rates:

Taxable Valuation	<u>90,515,724</u>	
Millage rate per 1,000 of taxable valuation:		
General operating	.9003	
Fire	.4891	
Library	.4891	
Roads	<u>1.3661</u>	
Total	<u>3.2446</u>	mills

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

6. Changes in Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

	<u>Balance</u> <u>March 31, 2004</u>	<u>Additions</u>	<u>Disposals &</u> <u>Adjustments</u>	<u>Balance</u> <u>March 31, 2005</u>
Governmental activities:				
Primary government:				
Capital assets being depreciated:				
Buildings and improvements	\$ 38,851	\$ 2,717	\$ -	\$41,568
Office furniture and equipment	16,398	1,066	-	17,464
Election equipment	7,960	-	-	7,960
Books, audio & videos	<u>56,005</u>	<u>17,699</u>	<u>-</u>	<u>73,704</u>
Subtotal	119,214	21,482	-	140,696
Accumulated depreciation:				
Buildings and improvements	12,024	1,028	-	13,052
Office furniture and equipment	8,868	2,801	-	11,669
Election equipment	7,849	111	-	7,960
Books, audio & videos	<u>28,640</u>	<u>11,881</u>	<u>-</u>	<u>40,521</u>
Subtotal	<u>57,381</u>	<u>15,821</u>	<u>-</u>	<u>73,202</u>
Net capital assets being depreciated	61,833	5,661	-	67,494
Capital assets not being depreciated:				
Land	<u>37,619</u>	<u>-</u>	<u>-</u>	<u>37,619</u>
Net capital assets	<u>\$ 99,452</u>	<u>\$ 5,661</u>	<u>\$ -</u>	<u>\$105,113</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 2,043
Recreation and culture	<u>13,778</u>
Total governmental activities	<u>\$15,821</u>

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

7. Interfund Receivable and Payable Balances

Interfund receivable and payable balances are as follows as of March 31, 2005:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 319	Agency: Current tax collection	\$ 319
Special revenue: Library	<u>3,000</u>	General	<u>3,000</u>
Total	<u>\$3,319</u>	Total	<u>\$3,319</u>

8. Long-term Debt

The following is a summary of the Township's long-term indebtedness reported in the governmental activities under the General Fund, as of March 31, 2005:

	<u>Balance March 31, 2004</u>	<u>Additions (Retirements)</u>	<u>Balance March 31, 2005</u>	<u>Due Within One Year</u>
\$80,000 note payable to a local bank; due in semi-annual installments of \$4,974.18 on April 1st and October 1st, including interest at 4.50%; maturing October 1, 2013	<u>\$76,209</u>	<u>\$ (6,623)</u>	<u>\$69,586</u>	<u>\$3,408</u>

The Township borrowed the funds to pay for road work, the expenditures for which were reported in the General Fund. The debt is being repaid with special assessments collected, being reported in the General Fund, as well.

The Township did not set up separate funds to account for this activity.

Annual debt service requirements to maturity for the note are as follows:

<u>Year ending March 31,</u>	<u>Governmental Activity/General Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,408	\$ 1,566	\$ 4,974
2007	7,049	2,899	9,948
2008	7,370	2,578	9,948
2009	7,705	2,243	9,948
2010	8,056	1,892	9,948
2011-2013	<u>35,998</u>	<u>3,737</u>	<u>39,735</u>
Total	<u>\$69,586</u>	<u>\$14,915</u>	<u>\$84,501</u>

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

9. Pension plan

The Township participates in a defined contribution pension plan entitled "Port Austin Township Group Pension Plan" through John Hancock (formerly ManuLife).

All elected officials are eligible to join the Plan immediately. There are no age or service requirements. Under the Plan agreement, the Township is required to contribute an amount equal to 15% of the annual compensation paid to covered employees. Employees may make voluntary non-deductible contributions to the Plan of 1% - 10% of their annual compensation. Normal retirement age is age 65 or, if later, upon completion of ten (but not more than ten) years of participation in the Plan. Early retirement is permitted at any time after reaching age 55. Benefits vest 100% immediately.

All contributions to the Plan are invested with John Hancock under an Allocated Retirement Account Contract. Under the contract, contributions are allocated to a 10-year Guaranteed Account. Funds in this account are invested in widely diversified bonds, stocks, mortgages and real estate. Deposits are fully guaranteed as to principal for payment of benefits and as to interest for ten years from the date of deposit in the account.

The following pension plan data is presented for the year ended March 31, 2005:

Total payroll	<u>\$89,994</u>
Total payroll for employees covered by the Plan	<u>\$45,200</u>
Employer contribution percentage	15%
Employer contribution	<u>\$6,780</u>
Employee non-deductible voluntary contributions	<u>\$ -</u>

10. Joint venture

Port Austin Fire Department

The Township is a constituent member of the Port Austin Fire Department (Department). The Department is a not-for-profit organization which provides fire protection services to the Township. The Department is governed by a board consisting of two representatives from each constituent unit and one additional Board member appointed by a majority vote of the other Board members. All Board members must be residents of a constituent unit. All financial and budgetary decisions are the responsibility of the Department's Board.

The Township's ownership percentage is not specified in the intergovernmental agreement. In the event the Department is dissolved, the agreement specifies the following. The assets and equipment of the Department shall be disposed of in accordance with the agreement of the constituent members. If no agreement can be reached within sixty days, the assets and equipment of the Department shall be divided equally between the constituents.

The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating constituent members of the Department in the near future.

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

The Township assesses all Township residents a millage for fire protection services. The Township remits the fire levy collected to the Department. Payments to the Department for the fiscal year ended March 31, 2005, totaled \$23,005 for taxes collected.

The Department's fiscal year ends on March 31st. The Department's financial statements have been excluded from the financial statements presented for the Township. However, a summary of the Department's financial information as of and for the year ended March 31, 2005, is as follows:

	<u>General Fund</u>	<u>General Fixed Assets</u>
Total assets	<u>\$229,831</u>	<u>\$390,803</u>
Liabilities	\$ -	\$ -
Fund equity	<u>229,831</u>	<u>390,803</u>
Total liabilities and fund equity	<u>\$229,831</u>	<u>\$390,803</u>
Total revenues	\$ 76,627	N/A
Total expenditures	<u>115,607</u>	N/A
Excess of revenues over (under) expenditures	<u>\$ (38,980)</u>	N/A

The Department has no outstanding debt issues as of March 31, 2005.

A copy of the Department's financial statements can be obtained from the Port Austin Fire Department, 8633 Lake Street, Port Austin, Michigan 48467.

11. Risk management

The Township is exposed to potential risks of loss due to torts; theft, damage or destruction of property; and errors and omissions. The Township participates in the Michigan Municipal League Liability and Property Pool. The maximum insurance coverage provided the Township per occurrence are \$10,612 for property and \$5,000,000 for liability. Maximum annual aggregate amounts do not apply.

There were no reductions in insurance coverage for the year ended March 31, 2005. Settlements for claims for each of the past three fiscal years did not exceed insurance coverage.

TOWNSHIP OF PORT AUSTIN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005
(CONTINUED)

12. Accounting Change

Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Significant changes to the Township's financial statements as a result of GASB No. 34 are as follows:

- Management's discussion and analysis;
- Basic financial statements that include:
 - ▶ Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - ▶ Fund financial statements, consisting of a series of financial statements that focus on the Township's major governmental funds;
 - ▶ Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - ▶ Changes to the notes to the basic financial statements
- Required supplemental information, including certain budgetary schedules.

As a result of the implementation for the year ended March 31, 2005, the following adjustments were made to arrive at beginning net assets:

Government-wide financial statements - Statement of Net Assets:

Beginning net assets for governmental activities were determined as follows:

Fund balances of General and Special Revenue Funds as of March 31, 2004		\$307,161
Add:		
Special assessments receivable as of March 31, 2004	\$96,698	
Capital assets, net of accumulated depreciation as of March 31, 2004	<u>99,452</u>	196,150
Less:		
Long-term debt as of March 31, 2004		<u>(76,209)</u>
Governmental net assets as of March 31, 2004		<u>\$427,102</u>

Required Supplemental Information

TOWNSHIP OF PORT AUSTIN
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
YEAR ENDED MARCH 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Current tax collections	\$242,000	\$242,000	\$234,119	\$ (7,881)
Delinquent tax collections	400	400	954	554
Administration fees	<u>28,000</u>	<u>28,000</u>	<u>38,487</u>	<u>10,487</u>
Total taxes	270,400	270,400	273,560	3,160
Licenses and permits	4,505	4,505	9,418	4,913
State sources:				
Liquor license	1,500	1,500	1,539	39
Sales tax	54,000	54,000	56,833	2,833
Single business tax	<u>5,500</u>	<u>5,500</u>	<u>-</u>	<u>(5,500)</u>
Total state sources	61,000	61,000	58,372	(2,628)
Charges for services	2,900	2,900	3,650	750
Interest	500	500	1,803	1,303
Other:				
Special assessments	-	-	10,744	10,744
Miscellaneous	<u>1,150</u>	<u>1,150</u>	<u>3,163</u>	<u>2,013</u>
Total revenues	340,455	340,455	360,710	20,255
Expenditures:				
General government:				
Administration:				
Supervisor:				
Salary	8,000	8,000	8,000	-
Deputy supervisor's wage	500	400	-	400
Other	<u>1,000</u>	<u>1,100</u>	<u>1,090</u>	<u>10</u>
	9,500	9,500	9,090	410
Clerk:				
Salary	17,000	17,000	17,000	-
Deputy clerk's wage	1,000	1,000	257	743
Other	<u>1,500</u>	<u>1,500</u>	<u>1,503</u>	<u>(3)</u>
	19,500	19,500	18,760	740
Treasurer:				
Salary	17,000	17,000	17,000	-
Deputy treasurer's wage	2,000	2,000	1,118	882
Other	<u>1,500</u>	<u>1,500</u>	<u>1,018</u>	<u>482</u>
	20,500	20,500	19,136	1,364

TOWNSHIP OF PORT AUSTIN
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
YEAR ENDED MARCH 31, 2005
(CONTINUED)

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Trustees Fees	\$ 3,600	\$ 3,600	\$ 2,890	\$ 710
Assessing	26,200	31,310	30,709	601
Board of appeals	500	530	530	-
Board of review	2,000	2,000	1,506	494
Planning:				
Board wages	3,500	3,500	3,045	455
Administrative wage	1,000	1,000	500	500
Other	<u>500</u>	<u>500</u>	<u>342</u>	<u>158</u>
	5,000	5,000	3,887	1,113
Zoning:				
Wages	3,500	3,500	3,465	35
Other	<u>1,000</u>	<u>1,000</u>	<u>398</u>	<u>602</u>
	4,500	4,500	3,863	637
Elections:				
Wages	4,000	4,000	3,229	771
Other	<u>1,200</u>	<u>1,200</u>	<u>760</u>	<u>440</u>
	5,200	5,200	3,989	1,211
Cemetery:				
Wages	2,000	2,000	20	1,980
Other	<u>8,500</u>	<u>8,500</u>	<u>7,147</u>	<u>1,353</u>
	10,500	10,500	7,167	3,333
Other Administration:				
Office assistant wage	2,000	1,900	364	1,536
Employee Benefits:				
Pension	7,500	7,500	7,388	112
Payroll taxes	2,000	2,000	1,194	806
Unemployment claims	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
	10,000	10,000	8,582	1,418
Capital outlay	2,500	2,500	-	2,500
Computer support	1,500	2,500	2,330	170
Dues	1,500	1,500	1,281	219
Insurance	8,000	10,700	10,622	78
Miscellaneous	5,075	4,075	515	3,560
Postage	5,000	5,000	4,265	735
Printing and publishing	12,000	5,220	2,667	2,553
Professional fees	46,000	45,200	35,104	10,096
Supplies	<u>2,000</u>	<u>2,100</u>	<u>2,573</u>	<u>(473)</u>
	95,575	90,695	68,303	22,392
Total administration	202,575	202,835	169,830	33,005

TOWNSHIP OF PORT AUSTIN
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
YEAR ENDED MARCH 31, 2005
(CONTINUED)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Buildings and grounds:				
Janitorial wages	\$ 500	\$ 400	\$ 300	\$ 100
Office	400	400	-	400
Rent	5,300	5,040	4,740	300
Repairs and maintenance	900	900	298	602
Supplies	300	300	197	103
Utilities:				
Electricity	800	800	738	62
Heat	1,400	1,400	1,313	87
Telephone	2,000	2,000	1,685	315
Water	50	150	208	(58)
	<u>4,250</u>	<u>4,350</u>	<u>3,944</u>	<u>406</u>
Total buildings and grounds	<u>11,650</u>	<u>11,390</u>	<u>9,479</u>	<u>1,911</u>
Total general government	214,225	214,225	179,309	34,916
Public safety:				
Ambulance	3,100	3,100	2,175	925
Fire	42,000	42,000	43,197	(1,197)
Police	<u>1,200</u>	<u>1,200</u>	<u>1,100</u>	<u>100</u>
Total public safety	46,300	46,300	46,472	(172)
Public works:				
Drain at large	2,500	2,500	1,559	941
Roads:				
Special assessment project	-	-	23,000	(23,000)
Other	<u>116,000</u>	<u>116,000</u>	<u>147,709</u>	<u>(31,709)</u>
	116,000	116,000	170,709	(54,709)
Street lights	5,500	5,500	5,517	(17)
Water study	<u>12,000</u>	<u>12,000</u>	<u>2,000</u>	<u>10,000</u>
Total public works	136,000	136,000	179,785	(43,785)
Recreation and culture:				
Parks and recreation	500	500	500	-

TOWNSHIP OF PORT AUSTIN
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
YEAR ENDED MARCH 31, 2005
(CONTINUED)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Debt service:				
Principal	\$ -	\$ -	\$ 6,623	\$ (6,623)
Interest expense	<u>-</u>	<u>-</u>	<u>3,325</u>	<u>(3,325)</u>
Total debt service	<u>-</u>	<u>-</u>	<u>9,948</u>	<u>(9,948)</u>
Total expenditures	<u>397,025</u>	<u>397,025</u>	<u>416,014</u>	<u>(18,989)</u>
Excess of revenues over (under) expenditures	(56,570)	(56,570)	(55,304)	1,266
Fund balance - March 31, 2004	<u>234,489</u>	<u>234,489</u>	<u>234,489</u>	<u>-</u>
Fund balance - March 31, 2005	<u>\$177,919</u>	<u>\$177,919</u>	<u>\$179,185</u>	<u>\$ 1,266</u>

TOWNSHIP OF PORT AUSTIN
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND
YEAR ENDED MARCH 31, 2005

	Library Fund			Variance With Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes	\$20,000	\$20,000	\$41,575	\$21,575
State sources	2,000	2,000	2,391	391
Contributions from local units	-	-	500	500
Charges for services	750	750	641	(109)
Fines and forfeits	25,000	25,000	13,951	(11,049)
Interest	1,325	1,325	673	(652)
Rentals	8,000	8,000	7,250	(750)
Other	<u>8,600</u>	<u>8,600</u>	<u>6,876</u>	<u>(1,724)</u>
Total revenues	65,675	65,675	73,857	8,182
Expenditures:				
Recreation and culture:				
Salaries and wages	24,520	24,520	29,924	(5,404)
Payroll taxes	4,880	4,880	2,289	2,591
Books, periodicals and media	14,200	14,200	19,754	(5,554)
Supplies	1,600	1,600	4,602	(3,002)
Utilities	4,950	4,950	5,140	(190)
Insurance	1,185	1,185	1,203	(18)
Capital outlay	-	-	3,783	(3,783)
Other	<u>5,250</u>	<u>5,250</u>	<u>5,852</u>	<u>(602)</u>
Total expenditures	<u>56,585</u>	<u>56,585</u>	<u>72,547</u>	<u>(15,962)</u>
Excess of revenues over (under) expenditures	9,090	9,090	1,310	(7,780)
Fund balance - March 31, 2004	<u>72,672</u>	<u>72,672</u>	<u>72,672</u>	-
Fund balance - March 31, 2005	<u>\$81,762</u>	<u>\$81,762</u>	<u>\$73,982</u>	<u>\$ (7,780)</u>

The Library Fund did not amend its budget during the year ended March 31, 2005.

Other Supplemental Information

TOWNSHIP OF PORT AUSTIN
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND
MARCH 31, 2005

Permanent Fund
Cemetery
Perpetual
Care Fund

ASSETS

Cash and cash equivalents	<u>\$3,712</u>
---------------------------	----------------

LIABILITIES AND FUND BALANCE

Liabilities	\$ -
-------------	------

Fund balance:	
Reserved for perpetual care	<u>3,712</u>

Total liabilities and fund balance	<u>\$3,712</u>
------------------------------------	----------------

TOWNSHIP OF PORT AUSTIN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - NONMAJOR GOVERNMENTAL FUND
YEAR ENDED MARCH 31, 2005

	<u>Permanent Fund</u> Cemetery Perpetual Care Fund
Revenues:	
Charges for services	\$3,700
Interest	<u>12</u>
Total revenues	3,712
Expenditures:	
General government	<u>-</u>
Excess of revenues over expenditures	3,712
Fund balance - March 31, 2004	<u>-</u>
Fund balance - March 31, 2005	<u>\$3,712</u>

TOWNSHIP OF PORT AUSTIN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION AGENCY FUND
YEAR ENDED MARCH 31, 2005

	Balance March 31, 2004	Increases	Decreases	Balance March 31, 2005
<u>ASSETS</u>				
Cash and cash equivalents	<u>\$32,356</u>	<u>\$5,758,824</u>	<u>\$5,789,128</u>	<u>\$2,052</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 2	\$ 2,737	\$ 1,233	\$1,506
Due to other funds	32,354	302,539	334,574	319
Due to other governmental units:				
Due to other local units	-	45,641	45,641	-
Due to County	-	1,010,487	1,010,260	227
Due to schools	-	1,525,644	1,525,644	-
Due to State	-	480	480	-
Total due to other governmental units	-	<u>2,582,252</u>	<u>2,582,025</u>	<u>227</u>
Total liabilities	<u>\$32,356</u>	<u>\$2,887,528</u>	<u>\$2,917,832</u>	<u>\$2,052</u>

PORT AUSTIN TOWNSHIP
SCHEDULE OF INDEBTEDNESS - BANK NOTE PAYABLE -
PRINCIPAL AND INTEREST OBLIGATION
MARCH 31, 2005

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/05	\$ 3,408.49	4.500%	\$ 1,565.69	\$ 4,974.18
04/01/06	3,485.18	4.500%	1,489.00	4,974.18
10/01/06	3,563.60	4.500%	1,410.58	4,974.18
04/01/07	3,643.78	4.500%	1,330.40	4,974.18
10/01/07	3,725.77	4.500%	1,248.41	4,974.18
04/01/08	3,809.60	4.500%	1,164.58	4,974.18
10/01/08	3,895.31	4.500%	1,078.87	4,974.18
04/01/09	3,982.96	4.500%	991.22	4,974.18
10/01/09	4,072.57	4.500%	901.61	4,974.18
04/01/10	4,164.21	4.500%	809.97	4,974.18
10/01/10	4,257.90	4.500%	716.28	4,974.18
04/01/11	4,353.70	4.500%	620.48	4,974.18
10/01/11	4,451.66	4.500%	522.52	4,974.18
04/01/12	4,551.82	4.500%	422.36	4,974.18
10/01/12	4,654.24	4.500%	319.94	4,974.18
04/01/13	4,758.96	4.500%	215.22	4,974.18
10/01/13	<u>4,806.36</u>	4.500%	<u>108.14</u>	<u>4,914.50</u>
Totals	<u>\$69,586.11</u>		<u>\$14,915.27</u>	<u>\$84,501.38</u>



KENNETH J. BARANSKI, CPA, PLLC

Certified Public Accountant

132 E. Huron Avenue, Suite 2

Bad Axe, Michigan 48413

(989) 269-6766 • Fax (989) 269-6795

To the Township Board
Township of Port Austin
Huron County, Michigan

In connection with the audit I have conducted of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Port Austin for the year ended March 31, 2005, I offer the following comments and recommendations for your consideration.

FDIC coverage

The Township conducts all of its financial activity through one financial institution. As of March 31, 2005, approximately thirty percent of the Township's financial accounts (checking, savings, certificates of deposit) are uninsured because total deposits exceed the FDIC limitations for coverage.

The Township should set up accounts with more than one financial institution to increase FDIC coverage of its various financial accounts.

The above recommendation was made as part of the March 31, 2003, audit. At that time, thirty-four percent of the Township's financial accounts were uninsured.

Management continues to maintain accounts at only one financial institution because of the convenience of the institution's location.

Cash receipts

The following recommendation, made as part of the March 31, 2003, audit, has not been implemented as of March 31, 2005.

Receipts, issued for monies received, are dated using the date of the bank deposit and not the date funds are actually received. This practice diminishes the accuracy of the accounting records and inaccurately reflects the timing of Township cash flows. Documentation supporting the individual receipts is not being attached to the receipts prepared.

Receipts prepared should be dated with the actual date funds are received, regardless of when the bank deposit is made. Additionally, any supporting documentation received should be attached to the Township Clerk's copy of the receipt prepared.

Budget violations

As indicated in the notes to the financial statements, the Township violated the State Budget Act. The Township incurred expenditures in excess of the amounts budgeted in both the General Fund and the Library Special Revenue Fund. The Township's General Fund budget was amended during the year, while the Library Special Revenue Fund's budget was not.

The Township and Library Boards should review expenditure levels regularly to ensure that they do not exceed budgeted amounts. The Township's budgets for its various funds should be amended as needed so that future violations do not occur.

Current Tax Collection Agency Fund

The following recommendation was made as part of the March 31, 2003, audit.

As the complexity of the Township's property tax system increases, the accounting records for the Current Tax Collection Agency Fund become increasingly difficult to audit.

The Township has made improvements in a number of the areas suggested. However, the following areas still need improvement:

1. The Township should maintain the accounts of the Current Tax Collection Agency Fund as part of the Township's general ledger.
2. The Township, along with all of the entities involved, does not receive remuneration from the Huron County Treasurer for uncollected personal property taxes.

The Township should take steps to increase collections on delinquent personal property taxes.

Followup of comments/recommendations from prior audit(s) that have been resolved/corrected

Payment of vendor invoices

Original comment/recommendation:

The following comment, related to vendor invoices, applies to both the General Fund and the Library Special Revenue Fund.

Vendor invoices are attached to a copy of the check, supporting payment to the individual vendor(s), when paid. However, invoices are not being marked cancelled when paid.

At the time of payment, vendor invoices should be cancelled by marking them with the date of payment and check number. This practice would improve the Township's internal control structure by precluding bills from being submitted for payment more than once.

Followup:

Vendor invoices are now being properly cancelled when paid, by being marked paid, along with the date of payment and the related check number.

Computer log

Original comment/recommendation:

The Township uses computer accounting software for its General Fund. The basic accounting program does not allow for modification by the user. The user can add/delete and activate/inactivate employees, vendors, customers, etc.

During the year ended March 31, 2001, an error was discovered in a vendor file when the vendor's name was changed. The reason for the error could not be determined, and has not been identified as a problem when similar changes have been made.

The Township should maintain a log of changes made on the computer for items (vendors, etc.) added/deleted, etc., including any supporting documentation and the date of the change. A log containing such information could help identify the source of an error should future problems arise.

Followup:

The Township Clerk is now maintaining files of all of the changes made to computer data.

Adoption of investment policy

Original comment/recommendation:

The Township has not formally adopted an investment policy in accordance with Michigan Compiled Laws 129.95. The Township's investments consist of interest-bearing savings and checking accounts and certificates of deposit.

The Township should prepare and adopt an investment policy in accordance with Section 129.95. At a minimum, the Township's investment policy should include the following:

1. A statement of the purpose, scope and objectives of the policy, including safety, diversification, liquidity, and return on investment.
2. A delegation of authority to make investments.
3. A list of authorized investment instruments and any restrictions thereon.
4. A statement concerning safekeeping, custody and prudence.

Followup:

The Township has adopted an investment policy in accordance with Michigan Compiled Laws 129.95.

General fixed assets

Original comment/recommendation:

The value of the Township's general fixed assets is updated annually by adding the cost of assets acquired and subtracting the cost of assets disposed of. As of March 31, 2003, the Township was in the process of developing a detailed listing of general fixed assets, including their respective cost values. The Library Special Revenue Fund had not began working on such a listing.

The Township should maintain an itemized listing of general fixed assets. The listing should include, but is not limited to, the following information for each asset: a description of the asset, the date acquired, the value assigned and how it was arrived at (i.e. cost, donated value, etc.), and an identification number. The Township should also consider having assets tagged for easier identification and to deter theft, etc.

Followup:

The Township, including the Library Special Revenue Fund, now has an itemized listing of capital assets, including accumulated depreciation on those assets, in accordance with GASB Statement No. 34.

Library Special Revenue Fund - Bank reconciliations

Original comment/recommendation:

Discrepancies between the balance reported on the bank statement and the monthly accounting statement for the Library's checking account are not being investigated and corrected in a timely manner.

The Librarian should investigate any discrepancies and make any necessary adjustments to the general ledger in a timely manner.

Followup:

The Librarian is now reconciling the Library accounts in a more timely manner. No problems were noted in the audit conducted for the year ended March 31, 2005.

If additional assistance is needed to interpret and/or implement any of the above comments and recommendation, please contact my office.

This report is intended solely for the information of the Township Board and Management. However, this report is a matter of public record, and its distribution is not limited.

Kenneth J Baranski, CPA, PLLC

Kenneth J. Baranski, CPA, PLLC
August 26, 2005